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## MEMORANDUM

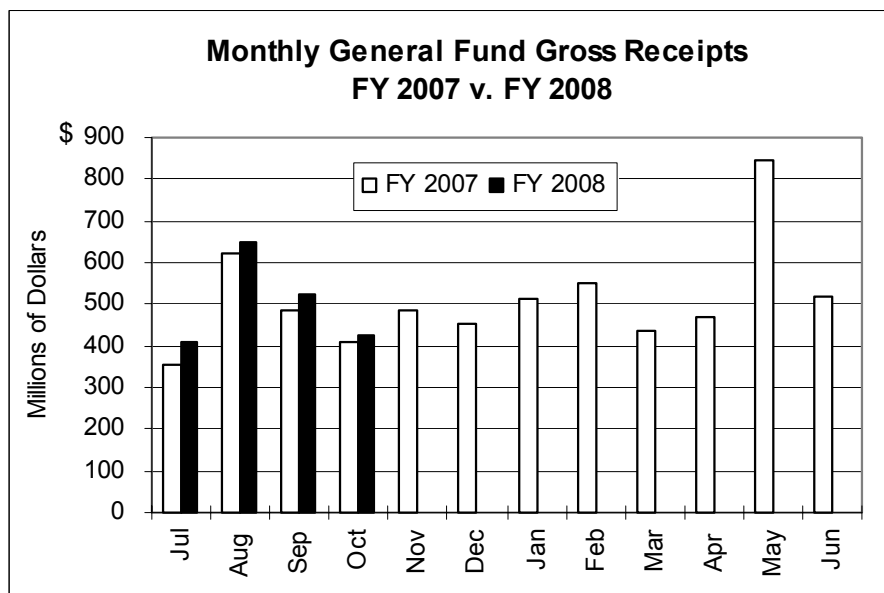
TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: November 1, 2007

### Monthly General Fund Receipts through October 31, 2007

The attached spreadsheet presents year-to-date FY 2008 General Fund receipts with comparable figures for actual FY 2007. The figures can be compared to the FY 2008 estimate of \$6.525 billion set by the Revenue Estimating Conference (REC) on October 9, 2007. The FY 2008 estimate is an increase of \$387.1 million (6.3%) compared to actual FY 2007 gross cash receipts (excludes refunds, transfers, and accrued revenue adjustments). The next REC meeting is scheduled for December 11, 2007.



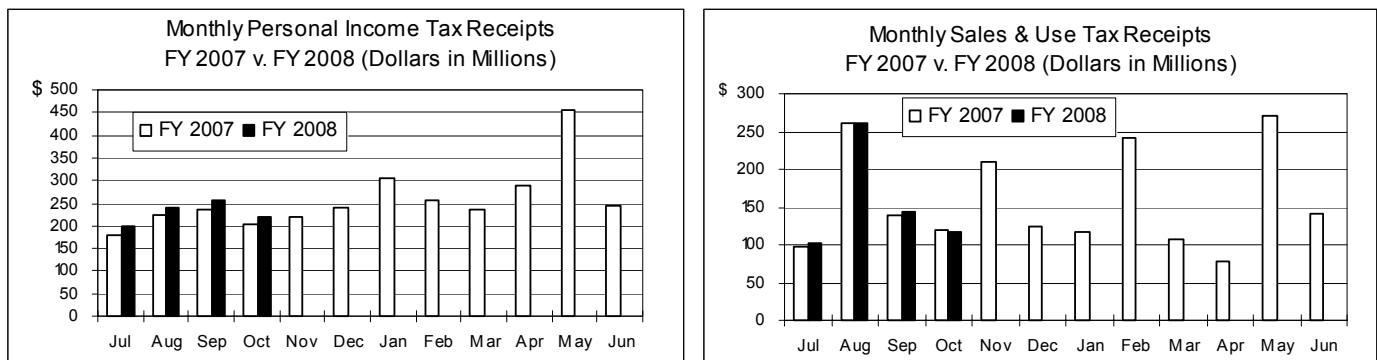
### FY 2008 Compared to FY 2007

Fiscal year to date total gross cash receipts increased \$144.7 million (7.8%) compared to FY 2007. Major revenue sources contributing to the change include:

- Personal income tax (positive \$71.1 million, 8.4%)
- Sales/use tax (positive \$5.3 million, 0.9%)
- Corporate tax (positive \$10.7 million, 8.5%)
- Other taxes (positive \$44.5 million, 33.2%)
- Other receipts (positive \$13.1 million, 9.2%)

**Personal Income Tax** revenues received in October totaled \$218.7 million, an increase of \$13.8 million (6.7%) compared to October 2006.

The FY 2008 REC Income Tax estimate of \$3.262 billion represents a projected increase of 5.7% compared to actual FY 2007. Year-to-date, total Income Tax receipts increased 8.4%. By subcategory, withholding payments increased \$35.6 million (5.0%), estimate payments increased \$12.3 million (63.2%), and payments with returns increased \$23.3 million (21.5%). The following chart compares FY 2008 monthly Income Tax receipts from the three Personal Income Tax subcategories with FY 2007.



**Sales/Use Tax** receipts received in October totaled \$116.1 million, a decrease of \$4.3 million (- 3.6%) compared to October 2006.

The REC estimate for FY 2008 Sales/Use Tax receipts is \$1.967 billion, an increase of 3.0% compared to actual FY 2007. Through October, FY 2008 Sales/Use Tax receipts have increased 0.9%. The preceding chart compares FY 2008 monthly Sales/Use Tax receipts with FY 2007.

Sales/Use Tax receipt comparisons to FY 2007 are currently negatively impacted by deposit and withdrawal issues associated with local option sales tax receipts. During the first four months of FY 2007, too little local option tax was withdrawn from the General Fund, making the revenue for the first four months of that year appear higher. As a consequence, the growth rate for the first four months of FY 2008 appears lower than actual. This issue should be resolved over the next several months.

**Corporate Tax** receipts received in October totaled \$34.9 million, a \$6.3 million decrease (- 15.3%) compared to October 2006.

The REC estimate for FY 2008 Corporate Tax revenue is \$436.0 million, an increase of 2.7% compared to actual FY 2007. Through October, FY 2008 Corporate Tax receipts have increased 8.5%. Corporate Tax receipts have now decreased in three of the last five months and the rate of growth, although still strong, continues to decline.

**Other tax** receipts received in October totaled \$32.5 million, a \$12.8 million increase compared to October 2006. Cigarette and Tobacco taxes continue to contribute significantly to the increase due to mid-March 2007 Cigarette and Tobacco Tax rate changes. The REC estimate for other tax receipts is \$496.7 million, an increase of 36.5% compared to actual FY 2007. Through October, FY 2008 other tax receipts have increased 33.2%.

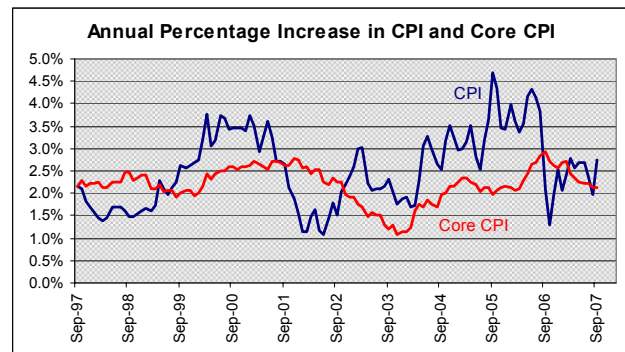
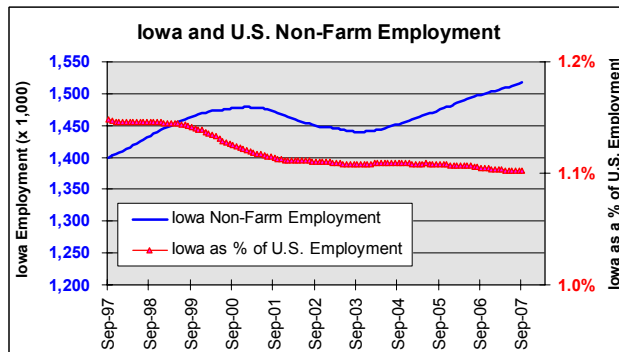
**Other receipts** (non-tax receipts) received in October totaled \$25.9 million, a \$2.5 million (10.7%) increase compared to October 2006. Liquor profits and Judicial Revenues accounted for much of the growth for the month.

The REC estimate for FY 2008 other receipt revenue is \$363.7 million, an increase of 2.8% compared to actual FY 2007. Through October, other receipts increased 9.2%.

### Status of the Economy

Iowa non-farm employment was reported at 1,534,300 for the month of September (not seasonally adjusted), 20,900 higher (1.4%) than September 2006.

Iowa's 12-month moving average employment is presented in a graph below. The average non-farm employment pre-recession peak was January 2001 (1,478,700), and the recession low was September 2003 (1,439,900). The current average reading is now 1,516,200, so annualized Iowa non-farm employment is 38,200 above its 2001 peak and 77,000 above the 2003 low. The chart below also presents Iowa non-farm employment as a percent of U.S. non-farm employment. Iowa's share of national non-farm employment decreased noticeably from 1998 through 2002. The decline has slowed considerably since early 2002, but the trend remains negative.



Consumer prices increased 0.3% during September (not seasonally adjusted), more than reversing the August decrease. The Consumer Price Index (CPI-U) through September 2007 was 208.5 (1983/84=100), 2.8% higher than one year ago. The overall inflation rate has generally increased since mid-2004, when the price of oil started to rise significantly.

Core CPI, an inflation measure that excludes food and energy prices, increased 0.2% for September and the year-over-year change was 2.1%. The core inflation rate declined considerably from the early 1990's through March 2004. From March 2004 through September 2006, inflation as measured by core CPI more than doubled, peaking at 2.9%. The August level of 2.1% is the lowest year-over-year change since March 2006. For the two components excluded from the core rate, energy prices were up 5.3% year-over-year and food prices increased 4.4%. For food prices, this is the highest rate of increase since June 1991.

Information related to State General Fund receipts is available on the Fiscal Services Division's web site at: <http://staffweb.legis.state.ia.us/lfb/receipts/daily.html>.

GENERAL FUND RECEIPTS - FY 2007 vs. FY 2008 July 1 through October 31 (in millions of dollars) Dollars may not add due to rounding. Percentages Calculated on Rounded Numbers					ESTIMATED GENERAL FUND RECEIPTS (in millions of dollars) FY 07 Actual Compared to FY 08 REC Estimate		
	FY 2007	FY 2008	Year to Date % Change	October % Change	Actual FY 2007	Estimate FY 2008	Projected % Change
Personal Income Tax	\$ 845.2	\$ 916.3	8.4%	6.7%	\$ 3,085.9	\$ 3,262.2	5.7%
Sales/Use Tax	618.6	623.9	0.9%	-3.6%	1,910.1	1,966.7	3.0%
Corporate Income Tax	126.6	137.3	8.5%	-15.3%	424.6	436.0	2.7%
Inheritance Tax	25.6	23.5	-8.2%	-23.2%	76.0	83.6	10.0%
Insurance Premium Tax	60.1	52.5	-12.6%	0.0%	105.2	125.6	19.4%
Cigarette Tax	30.4	79.3	160.9%	173.1%	122.0	223.1	82.9%
Tobacco Tax	3.2	7.0	118.8%	44.4%	12.1	18.6	53.7%
Beer Tax	5.3	5.3	0.0%	-9.1%	14.3	14.6	2.1%
Franchise Tax	9.4	10.9	16.0%	20.7%	33.3	30.2	-9.3%
Miscellaneous Tax	0.2	0.2	0.0%	0.0%	1.0	1.0	0.0%
Total Special Taxes	\$ 1,724.6	\$ 1,856.2	7.6%	4.1%	\$ 5,784.5	\$ 6,161.6	6.5%
Institutional Payments	4.3	4.7	9.3%	57.1%	12.9	12.6	-2.3%
Liquor Profits	17.3	20.4	17.9%	37.5%	64.8	67.8	4.6%
Interest	8.5	8.2	-3.5%	30.4%	28.7	20.0	-30.3%
Fees	24.4	25.0	2.5%	-23.5%	84.7	73.7	-13.0%
Judicial Revenue	18.0	25.3	40.6%	61.8%	66.9	89.6	33.9%
Miscellaneous Receipts	9.2	11.2	21.7%	-20.0%	35.7	40.0	12.0%
Racing and Gaming Receipts	60.0	60.0	0.0%	-100.0%	60.0	60.0	0.0%
TOTAL GROSS RECEIPTS	\$ 1,866.3	\$ 2,011.0	7.8%	4.5%	\$ 6,138.2	\$ 6,525.3	6.3%